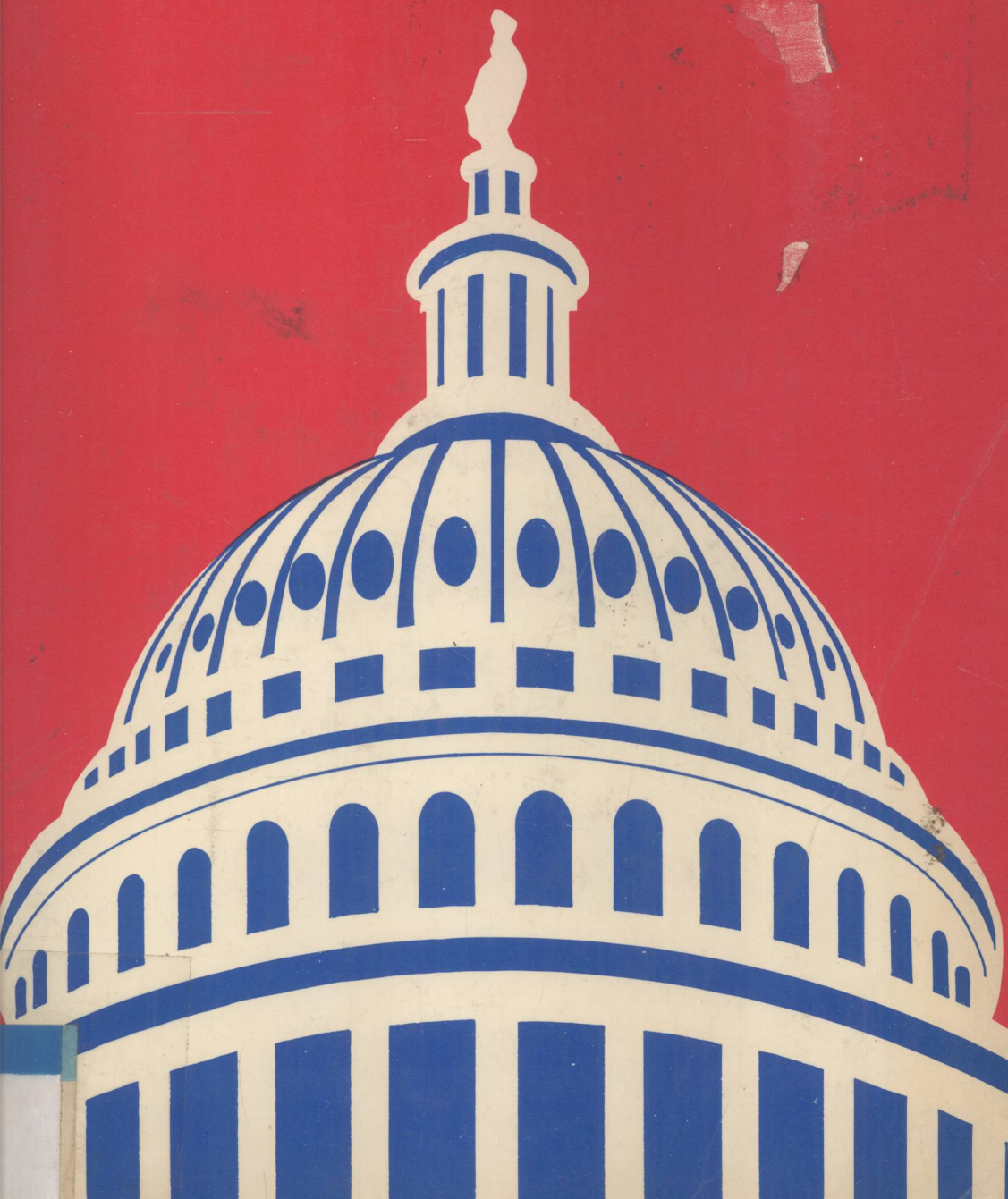


ZERO-BASE BUDGETING IN THE PUBLIC SECTOR

A PRAGMATIC APPROACH  PETER C. SARANT



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PETER C. SARANT

Director of Management Analysis Training
U.S. Civil Service Commission



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ZERO-BASE BUDGETING IN THE PUBLIC SECTOR

A PRAGMATIC APPROACH

This text is dedicated to President Jimmy Carter. It was written to assist him in his efforts toward improving efficiency and effectiveness in the Federal Government by using the zero-base budgeting process.

FOREWORD

The Federal budget process is central to conducting the business of government. It is also a critical component in the political machinery of democracy. If there is any formalized planning in government, either economic or programmatic, it is articulated through the medium of the budget.

Any accomplished political or bureaucratic official understands and respects the influence embodied in the formulation of the budget. The political power of a purse grows ever stronger as governments consume larger shares of the gross national product. In order to partake of this power, it is obligatory that the aspirant know something of the techniques and methods by which public sector budgets are created.

The pervasive influence of the budget process is deeply appreciated by successful public officials and administrators. We have seen an ever-increasing use of this process as a means to redirect or control legislated programs. A parade of budgetary systems has marched by in just the past decade. State and local governments have followed the trend or initiated variations of their own. And the Congress itself has recently reorganized its own methods of budgeting. It is even now considering yet additional ways to exert greater fiscal control through its appropriation and program review processes.

Public officials, political scientists, students of public affairs, and all others who wish to be knowing observers or participants in the government milieu need to have a good grasp of the current rules by which the game is being played. This book addresses that need.

R. J. Borntraeger
Director, Management Sciences Training Center
U.S. Civil Service Commission
Washington, D.C.

PREFACE

WHY WRITE A TEXT ON ZBB?

In the academic world it's "publish or perish." Nowhere in the State or Federal Governments is this concept followed. Experienced public servants are not given the incentive to perpetuate Government efficiency and effectiveness through the documenting of their experiences, i.e., publishing of a text. These texts are left to be written by college professors, sometimes inexperienced, whose credentials are an academic degree. In our changing society, taxpayers are clamoring for improvements in the public sector. The only means to accomplish immediate and effective results is through "How-to" training. Publishers such as Addison-Wesley are beginning to realize the need and demand for texts that are written in a "real world" context.

Another reason for writing *ZBB in the Public Sector* was the lack of texts addressing zero-base budgeting in the public sector. Acceptable texts by Pete Pyhrr and Logan Cheek had been written, but those were primarily directed to private industry. Government officials needed a text applying the zero-base process to the public sector.

As demand grew for training services and implementing of the ZBB process, contractors appeared on the Government scene, taking almost one million dollars of the taxpayer's money through ineffective courses and consultant fees. It became so evident that in the Federal Government on April 27, 1977, President Jimmy Carter issued a memo to the heads of all the executive departments and agencies. He wrote, "Wherever possible, I want you to rely on the Office of Management and Budget for information about this system rather than turning to outside consultants . . . this approach will help ensure that Zero-Base Budgeting is applied uniformly throughout the Executive Branch and that we save the wasted effort and unnecessary cost of relying on consultants."

As officials in the Government were in need of an up-to-date and economical text to train their employees, educators were in need of a similar text to assist them in teaching the ZBB process. At the urging of my college students and colleagues, I have responded with this text, *ZBB in the Public Sector*. This text is written in a manner that makes it relatively easy for a reader to understand and apply the steps and concepts of the ZBB process. To make the ZBB process more comprehensive I have modified it and added a dash of "real world" flavor.

HOW I WROTE THIS TEXT

The master plan was to write about each step in digestible pieces. Each bit of information was confirmed with Government officials who were currently implementing the ZBB process in a public sector. The Federal Government example was used mainly because it represented the biggest user of ZBB and State and local Governments would gain by these experiences.

Warnings on the improper use of the ZBB process are given to the reader throughout the text. The plans called for including in the text all the latest Federal directives and instructions such as OMB Bulletin 77-9 and revised Circular A-11. Illustrative exhibits and examples were drawn from actual Federal and State Government manuals and experiences. Many top officials and educators working closely with the ZBB process have contributed to this work.

The master writing plan was executed further by:

- Having knowledgeable and experienced practitioners review and contribute to the technical material
- Ensuring that technical material was timely and up to date

Complementing my own background and experience, I had the text reviewed by other professionals.

Whenever it was beneficial to my readers, I researched and excerpted from authorities in particular areas of zero-base budgeting. To interface the Management-by-Objectives (MBO) process with the ZBB concept, I excerpted from George Morrissey's, *Management by Objectives and Results in the Public Sector*. My search for experienced public workers in the automation of the ZBB process took me to Little Rock, Arkansas, where I contracted Fred Porter and Rita Henry. For the last chapter of the text, Mr. Porter and Ms. Henry wrote "Automating the Zero-Base Budget Concept."

Mr. Porter is the Budget Manager for the State of Arkansas and has been with the Arkansas Department of Budget since their initial utilization of an automated budget system in 1972. Over the past 5 years he has been a key figure in the operations and refinement of that system. When Governor David Pryor determined that a form of zero-base budgeting was needed in Arkansas, Mr. Porter assumed a paramount role in the redesign and development of their automated budget process for accommodation of the zero-base budget concept.

Ms. Henry is a computer application manager with the State of Arkansas's Department of Computer Services. Ms. Henry has been intricately involved in the development and refinement of Arkansas' automated budget system for the past 4 years. She functioned in various roles as chief programmer, system designer, and system analyst, in a number of major data process applications including state-wide accounting, and federal grants management and acquisition. The article that they co-authored is just as appropriate for the Federal Government as it is for a State Government.

Other contents have been taken from the States of Georgia, Texas, and Arkansas, from the U.S. Public Health Service, the U.S. Department of Labor, Department of Justice, the Environmental Protection Agency, and various agencies within the U.S. Department of Health, Education, and Welfare.

In this text, I have also shown the interrelationship with the proposed Sunset Legislation, the Reorganization Act, and Management-by-Objectives. To assist the reader I have printed in the Appendix a bibliography composed of 100 articles and books appropriate to the study of the ZBB process.

I have standardized the ZBB concepts for the public sector while still managing to keep the process flexible.

This book is the result of all these efforts. I hope that the effective implementation of ZBB is helped by this text. This is my contribution to the training profession.

Washington, D.C.
November 1977

P.S.

ACKNOWLEDGMENTS

In January 1977, I taught the first accredited college course in zero-base budgeting (ZBB) for the U.S. Department of Agriculture Graduate School in Washington, D.C. Thirty-eight top Federal executives attended this class held at the Office of Education, U.S. Department of Health, Education, and Welfare.

My main objective of the ZBB course was to work “real world” ZBB problems that the executives would encounter at their agency. Attesting to the course’s success, Senator Talmadge of Georgia wrote, “This was one of the most outstanding courses given on zero-base budgeting.”

The credit goes to the academic insight of Dr. John Holden and Dr. Edmund Fulker, Director and Deputy Director of the U.S. Department of Agriculture Graduate School, who decided to conduct training for zero-base budgeting before President Carter issued his ZBB directive.

This text was the result of urging by my students and other colleagues for a book which would (1) ensure the successful implementation of ZBB, (2) enlighten and speed the educational process of learning ZBB, and (3) provide educators with an up-to-date “real world” text that would “walk” students through the ZBB process.

I also offer thanks to the men who methodically reviewed this text and whose suggestions greatly improved it — Mr. James Vincent, Assistant Director of the Interagency Auditor Training Institute of the Department of Commerce; and Mr. Jon Bellis, Associate Director of the Management Sciences Training Center of the U.S. Civil Service Commission.

I would like to give special thanks to Mr. Dave Winfield of the Office of Management and Budget, Executive Office of the President of the United States. His understanding of zero-base budgeting special techniques gained from experience in assisting in the implementation of ZBB both in Georgia and in the Federal Government was invaluable in his review of Chapters 1, 2, and 5.

I would like to acknowledge Raymond J. Borntraeger, Director of the Civil Service Commissions Management Sciences Training Center, for the confidence he has shown in me and the career-enhancing advice and assistance he has provided me with over the past years. He introduced me, as an accountant, to the field of training, developed me into a professional instructor, and gave me my opportunity as a manager. His inspiration and encouragement were the significant factors in my completion of this book and he deserves special recognition.

I appreciate my family's patience, confidence, and sacrifices while I was engaged in the writing of this book.

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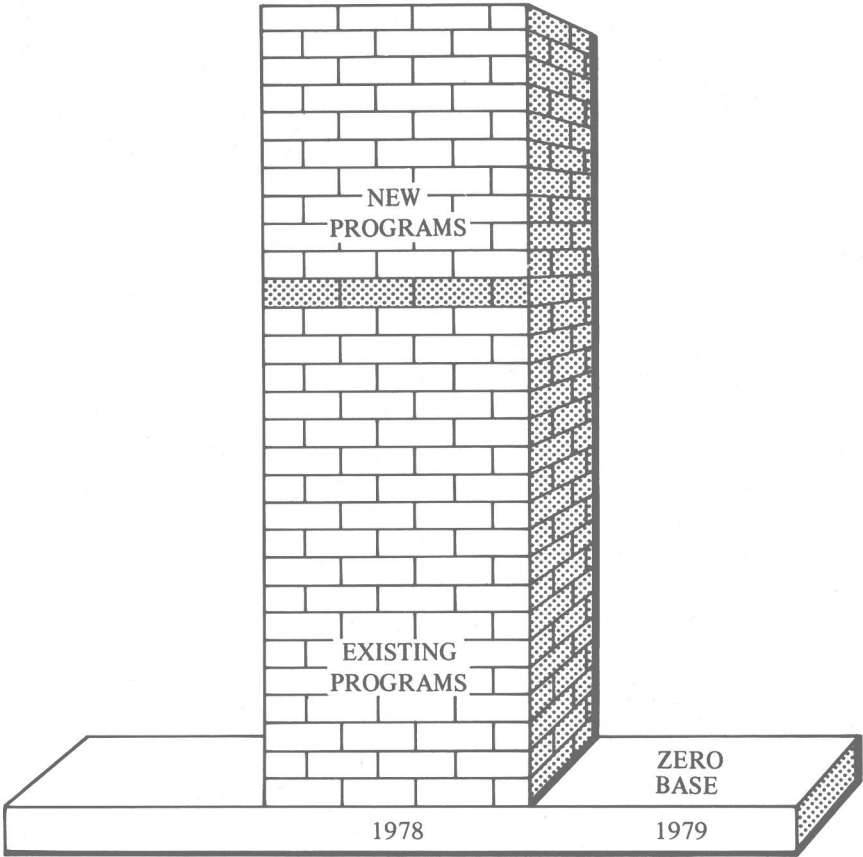
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AUTOMATING THE ZERO-BASE BUDGET CONCEPT

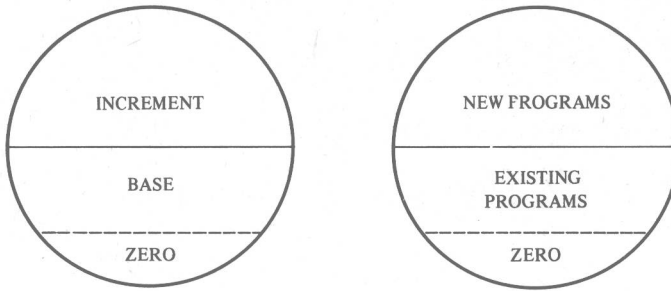
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CHAPTER 1
INTRODUCTION
TO ZERO-BASE
BUDGETING



WHAT IS ZBB?



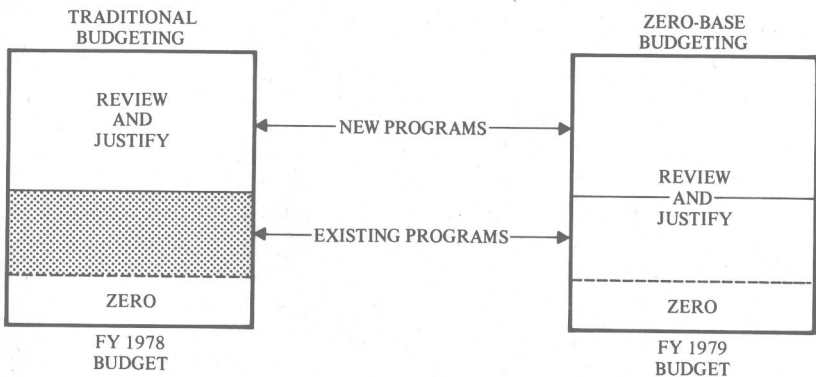
Model of traditional budget

Zero-Base Budgeting (ZBB) attempts to shift the traditional management approach of the Public Sector budget process towards a new mode of thinking and operation. Public budgets are traditionally prepared by taking the current level of funding for existing programs and increasing the expenditures to fund new programs, which are generally scrutinized closely. ZBB subjects existing, current programs and activities to the same kind of detailed analysis and justification usually reserved for new programs. Now, management will have to review selected ongoing programs vigorously and in detail.

Government programs may cross functional lines and be represented by an organizational unit that will be responsible for accomplishing the program objectives. It is the unit's manager who reviews and justifies the budget. In the Federal Government, the U.S. Office of Management and Budget has issued these instructions:

"Agencies should ensure that the basic decision units selected are not so low in the structure as to result in excessive paperwork and review."¹

This can be interpreted to mean that all program elements within a program *are not* necessarily reviewed and justified under the ZBB process. The premise of zero-base budgeting is that agencies should review all programs at least once on a broad basis.



ZBB means "different things to different people." Some definitions are implying that zero-base budgeting is the act of starting budgets from "scratch" or requiring each program or activity to be justified from the "ground up." This is not true; the acronym, ZBB, is a misnomer.

ZBB refers to the review and justification of selected, not all, current program elements starting somewhere at a point *in* the base area and not necessarily *at* "zero base." (Refer to model of traditional budget.)

ZBB is a misnomer because in many large agencies a complete zero-base review of all program elements during one budget period is not feasible; it would result in excessive paperwork and be an almost impossible task if attempted.

Definitions of ZBB

Since ZBB has not been fully established in the academic world as a major management approach, a number of definitions are presently in existence. Here are some of them:

Zero-base budgeting is a management process that provides for systematic consideration of all programs and activities in conjunction with the formulation of budget requests and program planning.²

ZBB is a system whereby each governmental program, regardless of whether it is a new or existing program, must be justified in its entirety each time a new budget is formulated.³

Zero-base budgeting is a management tool . . . a method of more efficient use of limited resources in the pursuit of specified goals. The goal, as with any planning-budgeting process, is to identify the output desired, and the input resources required to obtain it. This need not involve a reduction of expenditures. An increase, if it efficiently contributed to the attainment of the desired goal, might be an alternative.⁴

In the most literal sense, zero-base budgeting implies constructing a budget without any reference to what has gone before, based on a fundamental reappraisal of purposes, methods, and resources.⁵

The definition by the author, Pete Sarant, can be appropriately used in any environment, public or private:

ZBB is a technique which complements and links the existing planning, budgeting, and review processes. It identifies alternative and efficient methods of utilizing limited resources in the effective attainment of selected benefits. It is a flexible management approach which provides a credible rationale for reallocating resources by focusing on the systematic review and justification of the funding and performance levels of current programs or activities.

Concepts of Zero-Base Budgeting

ZBB is a management concept linking planning, budgeting, review, and operational decision making into a single process. Basic premises of ZBB in the private sector are that the budgets be justified from its “base upwards” and that new or existing programs and activities compete for resources annually by justifying current relevance, efficiency, and effectiveness. Terms defining ZBB in the public sector, such as justifying from its “ground up” or from “scratch” are erroneous and inappropriate. It is just as erroneous to mention that *all* programs and activities compete for resources in the “real world” of the public sector. There are public programs authorized by the legislature such as unemployment benefits or federal pensions for which it may be unsuitable to use the ZBB process.

ZBB is a flexible approach to budget formulation by which budget analysis and justification shifts away from *increments above* the baseline represented by existing programs to systematic review of *decrements below* that baseline; i.e., financial requirements for both *new* and *existing* programs or activities are justified and analyzed by the decision makers. The “thrust” of zero-base budgeting is:

- That it deals with practically all elements of the managers’ budget requests, not just increments or changes over the previous year.
- That it examines ongoing activities just as closely as proposed activities.
- That it provides the managers a range of choices in setting priorities and funding levels.

Therefore, as stated in the Management Information Report on zero-base budgeting in Garland, Texas,

ZBB is a management tool which provides a systematic method for evaluating all operations and programs current or new, allows for budget reductions and expansions in a rational manner and allows the reallocation of resources from low to high priority programs.⁶

Traditionally, only *increments* such as increases to existing programs or new programs were subjected to detailed scrutiny and justification by managers. The other ongoing programs, the *base* programs, were not examined to determine if they effectively contributed to the agency’s goals or objectives. Only periodic reviews of operational performance of program elements were made comparing budgeted with actual costs and outputs, and, of course, reviews were made whenever ongoing programs became subject to public attention. Under ZBB, examination and justification is made of both the base programs and the incremental programs. Under ZBB, managers can no longer take the current budget for granted and adjust only for new levels of effort for current programs or suggested new programs.

This new budgeting concept, ZBB, complements and allows the use of many current management techniques such as Management-By-Objective (MBO) and